

BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
DOCKET NO. 2014-3-E

August 22, 2014

IN RE:	Annual Review of Base Rates for Fuel Costs of Duke Energy Carolinas, LLC)))	SETTLEMENT AGREEMENT
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This Settlement Agreement is made by and among the South Carolina Office of Regulatory Staff (“ORS”), Duke Energy Carolinas, LLC (“Duke” or the “Company”), and the South Carolina Energy Users Committee (“SCEUC”), (collectively referred to as the “Parties” or sometimes individually as a “Party”). The Coastal Conservation League and the Southern Alliance for Clean Energy, the other participants in this docket, elected not to join this Settlement Agreement.

WHEREAS, the above-captioned proceeding has been established by the Public Service Commission of South Carolina (“Commission”) pursuant to the procedures in S.C. Code Ann. §58-27-865 (Supp. 2013), and the Parties to this Settlement Agreement are parties of record in the above-captioned Docket;

WHEREAS, the Parties have engaged in discussions to determine if a settlement of the issues would be in their best interests;

WHEREAS, following those discussions the Parties have each determined that their interests and the public interest would be best served by settling all issues pending in the above-captioned case under the terms and conditions set forth below:

1. The Parties agree to stipulate into the record before the Commission the pre-filed direct testimony and exhibits of ORS witnesses Lynda Sleighter Shafer and Robert A. Lawyer,

and the pre-filed direct testimony of Dawn M. Hipp without objection or cross-examination by the Parties. The Parties also agree to stipulate into the record before the Commission: (1) the pre-filed direct testimony and exhibits of Duke witnesses David C. Culp, Robert J. Duncan (includes redacted public and unredacted confidential version of Duncan Exhibit 3), Kim H. Smith, and Sasha J. Weintraub; (2) the pre-filed direct testimony of Joseph A. Miller, Jr.; (3) the pre-filed supplemental testimony of Robert J. Duncan and (4) the pre-filed rebuttal testimony of Janice D. Hager without objection or cross-examination by the Parties. The Parties agree that no other evidence will be offered in the proceeding by the Parties other than the stipulated testimony and exhibits and this Settlement Agreement unless the additional evidence is to support the Settlement Agreement. In consideration of this Settlement Agreement, SCEUC agrees to withdraw the testimony of Kevin O'Donnell and Duke agrees to forego filing rebuttal testimony of Sasha J. Weintraub and Kim H. Smith to address Mr. O'Donnell's testimony. Both SCEUC and Duke, however, agree that nothing herein will preclude either party from advancing its respective positions in the event that the Commission does not approve the Settlement Agreement.

2. As a compromise, the Parties agree to the proposal set out immediately below, and this proposal is hereby adopted, accepted, and acknowledged as the agreement of the Parties.

3. The Parties agree to accept all recommendations in ORS's testimony and exhibits.

4. ORS analyzed the cumulative (under)-recovery of base fuel costs that Duke incurred for the period June 2013 through May 2014 totaling (\$35,958,217). The May 2014 balance includes over-recovery adjustments of:

- \$2,418,974 to account for revisions to carrying costs collected on excess coal inventory during the review period;

- \$490,428 to recognize an amount for replacement power due to an extended outage of Marshall Unit 3 during a portion of the review period; and
- \$97,941 proposed by the Company in its filing, which represents South Carolina's portion of a settlement reached between the Company and a contractor, and which arose from a verbal agreement made during the fuel hearing in Commission Docket No. 2013-3-E.

ORS added the Company's estimated (under)-recoveries and adjustments of (\$10,622,592) for June 2014, (\$6,438,090) for July 2014, (\$5,233,893) for August 2014, and an estimated over-recovery of \$1,078,712 for base fuel costs for September 2014 to arrive at a cumulative (under)-recovery of (\$57,174,080) through September 2014. The over/(under) recoveries for each month include (1) Public Utility Regulatory Policy Act of 1978 ("PURPA") purchased power energy costs now required to be recovered through the fuel statute beginning June 2, 2014 via 2014 S.C. Acts 236 ("Act 236") and (2) deferral interest. Duke's cumulative (under)-recovery for base fuel costs, per its testimony in this Docket, as of May 2014 totals (\$38,965,655), and through September 2014 the estimated cumulative (under)-recovery totals (\$60,181,518). The difference between Duke's and ORS's cumulative (under)-recovery as of May and September 2014 totals \$3,007,438 and is due to adjustments and rounding.

5. Act 236 requires PURPA capacity costs to be passed through the fuel statute and allocated to customers in the same manner as environmental costs; therefore, ORS also analyzed the estimated cumulative PURPA capacity cost over-recovery balance of \$64,292 that Duke reported through September 2014. The ORS calculation of the estimated cumulative PURPA capacity over-recovery balance was \$64,382 through September 2014. The difference is due to rounding.

6. ORS analyzed the cumulative over-recovery of environmental costs that Duke had incurred for the period June 2013 through May 2014 totaling \$1,788,254. The \$1,788,254 includes an ORS over-recovery adjustment of \$8,173 to apply the appropriate sales tax on reagent purchases for the review period. ORS added the estimated (under)-recoveries of (\$357,329) for June 2014, (\$492,715) for July 2014, (\$452,769) for August 2014 and (\$166,071) for September 2014 for a total cumulative over-recovery balance of \$319,370 through September 2014. The Company's rounded cumulative over-recovery for environmental costs, per its testimony in this Docket, as of May 2014 totals \$1,780,334 and through September 2014 the cumulative over-recovery balance totals \$311,258. The difference between Duke's and ORS's cumulative over-recovery as of actual May 2014 totals \$7,920. The difference between Duke's and ORS's estimated cumulative over-recovery, as of September 2014, totals \$8,112 which is due to the sales tax adjustment and rounding.

7. Adding the base fuel (under)-collection of (\$57,174,080), PURPA over-collection capacity costs of \$64,382, and environmental over-collection costs \$319,370 results in a total undercollection of (\$56,790,328) as shown in page 2 of 2 in ORS Exhibit RAL-5.

8. Duke agrees to defer the recovery of \$18 million of its projected fuel costs in order to reduce the fuel rate during the one year billing period beginning on October 1, 2014. Duke will be allowed to recover the actual over/under recovery balance beginning in October 2015. The parties agree that Duke will be allowed to charge and accrue interest on the \$18 million deferred recovery amount until September 30, 2015, and that SCEUC will not ask Duke in its 2015 fuel case to defer any of the \$18 million deferred amount. The deferral described in this paragraph does not affect recovery of the amounts deferred in Docket 2013-3-E. Recovery

of the amounts deferred in that proceeding shall be governed by the provisions of the settlement agreement in Docket 2013-3-E.

9. The parties agree that Duke will be allowed to charge and accrue interest on the amount deferred for recovery during the year(s) that recovery is deferred. The interest will be charged and accrued on a monthly basis on the amount that the Company would have billed but for the deferral. The applicable interest rate used to calculate the carrying costs under this Settlement Agreement is the rate of interest as of the first day of each month during the applicable period for the 3-year U.S. Government Treasury Note, as reported in the Wall Street journal, either in its print edition or on its website, plus an all-in spread of 65 basis points (0.65 percentage points). The applicable period during which carrying costs may be applied pursuant to this Settlement Agreement begins October 1, 2014 and ends September 30, 2015. The total carrying costs rate, including the 65 basis points, shall not exceed 6%.

10. The appropriate fuel factors for Duke to charge for the period beginning with the first billing cycle in October 2014 extending through the last billing cycle of September 2015 are listed below. The South Carolina Combined Projected Fuel Factor represents an increase from the current combined fuel factor.

Class of Service	SC Base Fuel Factor (cents/kWh)	SC Environmental Factor (cents/kWh)	PURPA Capacity Costs (cents/kWh)	SC Combined Total Projected Fuel Factor (cents/kWh)
Residential	2.3474	0.0595	0.0249	2.4318
General/Lighting	2.3474	0.0492	0.0170	2.4136
Industrial	2.3474	0.0367	0.0108	2.3949

11. In addition, the Parties agree that a reduction to base rates is appropriate to avoid a double-recovery for PURPA-related avoided costs. This reduction is 0.0474 cents/kWh for all customer classes and will occur concurrent with the fuel rate changes that will go into effect on October 1, 2014.

12. The Parties agree that the fuel factors as set forth above are consistent with S.C. Code Ann. § 58-27-865 (Supp. 2013).

13. The Parties agree that in an effort to keep the Parties and Duke's customers informed of the over/(under)- recovery balances related to fuel costs and of Duke's commercially reasonable efforts to forecast the expected fuel factor to be set at its next annual fuel proceeding, Duke will provide to ORS, and where applicable, its customers the following information:

- a) copies of the monthly fuel recovery reports currently filed with the Commission, modified to show the monthly over/(under)-recovery and cumulative balances through the end of the forecast period; and,
- b) forecasts of the expected fuel factor to be set at its next annual fuel proceeding based upon Duke's historical over/(under)-recovery to date and Duke's forecast of prices for uranium, natural gas, coal, oil and other fuel required for generation of electricity. Such forecasts will be provided in the 4th quarter of the calendar year prior to the next annual fuel proceeding and in the 2nd quarter of the calendar year of the Company's next annual fuel proceeding. Duke will use commercially reasonable efforts in making these forecasts. To the extent that the forecast data required hereunder is confidential, any party or customer that requests forecasted fuel data will have to sign a non-disclosure agreement agreeing to protect the data from public disclosure and to only disclose it to employees or agents with a need to be aware of this information.

14. The Parties agree to cooperate in good faith with one another in recommending to the Commission that this Settlement Agreement be accepted and approved by the Commission as a fair, reasonable and full resolution of all issues currently pending in the above-captioned proceeding. The Parties agree to use reasonable efforts to defend and support any Commission order issued approving this Settlement Agreement and the terms and conditions contained herein.

15. The Parties further agree that, except as noted below, any challenges to Duke's historical fuel costs recovery for the period ending May 31, 2014, are not subject to further review; however, the projected fuel costs for periods beginning June 1, 2014, and thereafter shall be open issues in future fuel cost proceedings held under the procedure and criteria established in S.C. Code Ann. § 58-27-865 (Supp. 2013).

16. With regard to plant outages not complete as of May 31, 2014, and plant outages where final reports (Company, contractor, government reports or otherwise) are not available, the Parties agree that ORS retains the right to review the reasonableness of plant outage(s) and associated costs at such time as the outage is complete or when the report(s) become available.

17. The Parties agree this Settlement Agreement is reasonable, in the public interest, and in accordance with law and regulatory policy.

18. Further, ORS is charged with the duty to represent the public interest of South Carolina pursuant to S.C. Code § 58-4-10(B) (Supp. 2013). S.C. Code § 58-4-10(B)(l) through (3) reads in part as follows:

“...‘public interest’ means a balancing of the following:

- (1) Concerns of the using and consuming public with respect to public utility services, regardless of the class of customer;
- (2) Economic development and job attraction and retention in South Carolina; and
- (3) Preservation of the financial integrity of the State's public utilities and continued investment in and

maintenance of utility facilities so as to provide reliable and high quality utility services.”

19. This written Settlement Agreement contains the complete agreement of the Parties. The Parties agree that by signing this Settlement Agreement, it will not constrain, inhibit or impair their arguments or positions held in future proceedings. If the Commission declines to approve the agreement in its entirety, then any Party desiring to do so may withdraw from the agreement without penalty, within three (3) days of receiving notice of the decision, by providing written notice of withdrawal via electronic mail to all parties in that time period.

20. This Settlement Agreement shall be effective upon execution of the Parties and shall be interpreted according to South Carolina law.

21. This Settlement Agreement in no way constitutes a waiver or acceptance of the position of any Party concerning the requirements of S.C. Code Ann. § 58-27-865 (Supp. 2013) in any future proceeding. This Settlement Agreement does not establish any precedent with respect to the issues resolved herein and in no way precludes any Party herein from advocating an alternative methodology under S.C. Code Ann. § 58-27-865 (Supp. 2013) in any future proceeding.


22. This Settlement Agreement shall bind and inure to the benefit of each of the signatories hereto and their representatives, predecessors, successors, assigns, agents, shareholders, officers, directors (in their individual and representative capacities), subsidiaries, affiliates, parent corporations, if any, joint ventures, heirs, executors, administrators, trustees, and attorneys.

23. The above terms and conditions fully represent the agreement of the Parties hereto. Therefore, each Party acknowledges its consent and agreement to this Settlement Agreement by authorizing its counsel to affix his or her signature to this document where

indicated below. Counsel's signature represents his or her representation that his or her client has authorized the execution of the Settlement Agreement. Facsimile signatures and e-mail signatures shall be as effective as original signatures to bind any Party. This document may be signed in counterparts, with the various signature pages combined with the body of the document constituting an original and provable copy of this Settlement Agreement.

[PARTY SIGNATURES TO FOLLOW ON SEPARATE PAGES]

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